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**FISCAL IMPACT STATEMENT**

**LS 6497**

**BILL NUMBER:** SB 100

**NOTE PREPARED:** Apr 5, 2005

**BILL AMENDED:** Mar 29, 2005

**SUBJECT:** Local Option Income Taxes.

**FIRST AUTHOR:** Sen. Long

**FIRST SPONSOR:** Rep. Espich

**BILL STATUS:** As Passed House

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill has the following provisions:

(A) The bill provides that a civil taxing unit's distributive share of county option income taxes (COIT) may be used for any lawful purpose.

(B) The bill expands the use of the county economic development income tax (CEDIT) to any lawful purpose of a county, city, or town.

(C) The bill authorizes Miami County and Howard County to increase their respective county option income taxes by 0.25% over the maximum rates for county jail purposes.

**Effective Date:** (Amended) Upon passage; July 1, 2005.

**Explanation of State Expenditures:** (Revised) Howard or Miami Counties would be allowed to adopt an ordinance to increase their COIT rate by 0.25% in 2005 after the statutory deadline of April 1. If an ordinance were adopted to increase the COIT rate by May 31, 2005, the Department of State Revenue (the Department) may require additional administrative time to produce new employer withholding instructions reflecting the new tax rate. The Department's existing resources should be sufficient to produce the new instructions. *See Explanation of Local Revenues.*

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** (Revised) *Summary:* **(A) & (B)** Under the bill, there could be a shift of County Option Income Tax (COIT) or County Economic Development Income Tax (CEDIT) revenue from uses allowed under current law to any lawful purpose a civil taxing unit chooses. Under the bill, CEDIT counties with bonds outstanding for economic development projects or for the lease of property would not be allowed to expend money for other lawful purposes allowed by the bill if the expenditures would adversely affect owners of outstanding bonds or payment of lease rentals.

**(C)** Under the bill, Howard and Miami Counties would be required to establish county jail revenue funds (CJRF) for the collection of revenues from the proposed rate increase.

*Background:* **(A)** Under current law, COIT revenue may be used for the following purposes:

- (1) Replacement of lost property tax revenue from schools and taxing units due to the homestead credit.
- (2) Operation of public communications systems and computer facilities.
- (3) Operation of public transportation corporations.
- (4) Finance certain economic development project bonds.
- (5) To fund certain redevelopment initiatives in Marion County.
- (6) To make allocations of distributive shares to civil taxing units.

**(B)** Under current law, CEDIT revenue may be used for several purposes including:

- (1) County, city, or town economic or capital development projects.
- (2) Capital improvement plans.
- (3) Fund increased homestead credit due to the reduction of state and county inventory taxes.
- (4) Maintenance of courthouse facilities.

**Explanation of Local Revenues:** (Revised) **(A) & (B)** *Summary:* The proposal should be revenue neutral with respect to counties receiving future certified distributions from either COIT or CEDIT. The bill does not authorize counties to adopt additional changes to either COIT or CEDIT tax rates.

*Background:* For CY 2005, 27 counties had adopted COIT with total certified distributions of \$402.6 M. In CY 2005, 71 counties had adopted CEDIT with certified distributions totaling \$197 M.

Under current law, CEDIT rates may be set at 0.1%, 0.2%, 0.25%, 0.3%, 0.35%, 0.4%, 0.45%, and 0.5%.

Under current law, a county must adopt a rate increase in CEDIT by April 1 of a given year. In July of that year, the State Budget Agency calculates a certified distribution for the following year. (Counties do not receive any additional certified shares until January of the year following the rate increase and certified distribution.)

(Current law allows, with certain exceptions, a maximum combined CEDIT and COIT rate of 1.0%.)

**(C)** Under the bill Howard and Miami Counties would have the option to increase their COIT rate by 0.25% for county jail expenditures including repayment of any bonds or leases entered into for county jail expenditures. Revenue derived from the proposed increase in the COIT rate would be placed in the county jail revenue fund *before* the county certified distribution is made. The bill would allow their combined CEDIT and COIT rate to be 1.25%.

The following table illustrates the projected revenue estimates at 0.25% for Howard and Miami Counties under the proposal.

County	CY 2007 Estimated COIT Revenue At 0.25%
Howard	\$3.8 M
Miami	\$1.3 M

The effective date of this provision is upon passage. Under the bill, either county council could adopt an ordinance to increase its COIT rate before June 1, 2005. If an ordinance is adopted under the bill before June 1, 2005, the ordinance would be effective on the later of either July 1, 2005 or 15 regular business days after the Department of State Revenue received a copy of the ordinance. If a rate increase were adopted before June 1, 2005, the certified distributions with the additional 0.25% COIT rate would begin to be received by the county in CY 2007. (Under current law, a COIT county that has a tax rate of 0.6% may adopt an ordinance to increase the rate by 0.1% per year until reaching 1.00%.)

*Background:* Howard County currently imposes COIT at a 0.70% rate and CEDIT at a 0.20% rate. Howard county will receive COIT certified distributions of \$10.6 M in CY 2005 and CEDIT certified distributions of \$3 M in CY 2005.

Miami County currently imposes COIT at a 0.60% rate and CEDIT at a 0.44% rate. Miami County will receive COIT certified distributions of \$2.8 M in CY 2005 and CEDIT certified distributions of \$2.6 M in CY 2005.

**State Agencies Affected:** Department of State Revenue; State Budget Agency.

**Local Agencies Affected:** Howard County, Miami County, COIT and/or CEDIT Counties.

**Information Sources:** State Budget Agency.

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